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December 31, 2004

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

Re: Application of Development Service, Inc. for Approval of New Schedule
of Rates and Charges for Sewerage Service Provided to Residential and
Commercial Customers in all Areas Served
PSC Docket No.: 2004-212-S

Dear Charles:

Enclosed for filing please find twenty-six copies of surrebuttal testimony for the following Office of Regulatory Staff witnesses: Dawn M. Hipp and Willie J. Morgan. Please date stamp the extra copy enclosed and return it with our courier.

Please let me know if you have any questions.

Sincerely,

Shannon Bowyer Hudson

SBH/wot
Terreni.ltr.4(12-31-04).doc

cc: Charles Cook, Esq.

Enclosures

2004 DEC 31 PM 4:25
PSC
COOK

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2004-212-S

IN RE: Application of DEVELOPMENT)
SERVICE, INC. for Approval of)
New Schedule of Rates and Charges)
For Sewage Service Provided to)
Residential and Commercial)
Customers in all areas Served.)

CERTIFICATE OF SERVICE

REC'D
2004 DEC 31 PM 4:35
SOUTH CAROLINA
PUBLIC SERVICE COMMISSION

This is to certify that I, Shannon Bowyer Hudson, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the Surrebuttal Testimony and Exhibits of: Dawn M. Hipp and Willie J. Morgan, in the above-referenced matter to the person(s) indicated below by hand delivery:

Charles H. Cook, Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, South Carolina 29205



Shannon Bowyer Hudson

December 31, 2004
Columbia, South Carolina

THE OFFICE OF REGULATORY STAFF
SURREBUTTAL TESTIMONY
OF
DAWN M. HIPPI

FILED
2004 OCT 21 PM 4:36
COMMERCIAL



DOCKET NO. 2004-212-S
DEVELOPMENT SERVICE, INC.
APPLICATION FOR RATE INCREASE
TEST YEAR ENDED DECEMBER 31, 2003

1 **SURREBUTTAL TESTIMONY OF DAWN M. HIPPI**

2 **FOR**

3 **THE OFFICE OF REGULATORY STAFF**

4 **DOCKET NO. 2004-212-S**

5 **IN RE: DEVELOPMENT SERVICE, INC.**

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10 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**
11 **OCCUPATION.**

12 **A.** My name is Dawn M. Hipp. My business address is 1441 Main Street, Suite 300,
13 Columbia, South Carolina 29201. I am employed by the state of South Carolina
14 as a Project Specialist for Water/Wastewater Department for the Office of
15 Regulatory Staff (ORS).

16 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

17 **A.** The purpose of my surrebuttal testimony is to respond to Mr. Keith Parnell's
18 Rebuttal Testimony filed, on behalf of Development Service, Inc. (DSI), on
19 December 29, 2004, and to present the ORS staff's position relating to the phase-
20 in of rates as requested by DSI, performance bond, company merger and request
21 for consolidation of the DSI and Bush River Utilities, Inc. (BRUI) hearings.

1 Q. IN ITS APPLICATION, DID DSI REQUEST THE COMMISSION TO
2 CONSIDER A SPECIFIC RATE INCREASE BASED ON AN IDENTIFIED
3 OPERATING MARGIN?

4 A. Based on my review of DSI's Application for Rate Increase, DSI did not request
5 proposed rates to be based on their opportunity to earn a specific operating
6 margin. However, DSI's Application does identify a percent increase per Single
7 Family Equivalent (SFE) for both the During and After Construction Phases.
8 While it is appropriate to indicate the percent increase to demonstrate the overall
9 effect of the increase on a customer's monthly bill, it is key to identify and
10 propose a specific operating margin. Operating margin is not only a measure of
11 profitability and performance but is an important measurement of management's
12 efficiency.

13 Q. DID ORS CONSIDER THE PROPOSED TWO-PHASED RATE
14 INCREASE FOR DSI?

15 A. ORS did consider the two-phase approach proposed by DSI, but we rejected that
16 approach for the following reasons:

17 1) DSI's future treatment costs are not known and measurable as the BRUI
18 rate increase request has not been decided by the Commission. Allowing a phase-
19 in of rates before the BRUI rate case is decided would require one to speculate on
20 the outcome of the BRUI case and the resulting effects of the BRUI case on
21 DSI's treatment costs. After the BRUI rate case is decided, DSI's future treatment
22 costs will be more certain as the rate charged by BRUI to DSI for treatment costs
23 will be ascertainable.

1 2) DSI's customers should not bear the direct costs of construction for
2 facilities owned by BRUI and Midlands Utility, Inc. since no construction will be
3 made or completed on DSI's collection system. Once the BRUI rate case is
4 decided, costs of construction allowed by the Commission will be recovered
5 through BRUI's rates, and DSI's customers will contribute to the repayment of
6 those costs through the charges for treatment. However, DSI's customers should
7 not pay the direct construction costs for facilities not on the DSI system.

8 **Q. PLEASE ADDRESS MR. PARNELL'S STATEMENT ON PAGE 8, LINES**
9 **16-20 REFERENCING RATE CASE COSTS.**

10 A. Mr. Parnell states on page 8 in lines 16-20: "If for instance, this Commission
11 were to grant DSI a return using a 14.92% operating margin as recommended by
12 ORS, DSI would be forced to reapply for a second rate increase once Bush River
13 completed its construction. DSI, this Commission and the ORS would incur
14 additional costs and expense which of necessity would be passed along to DSI's
15 customers." It should be recognized that DSI must prove in this case that it
16 requires a rate increase and the amount of that increase. DSI should have
17 considered what would be required of it in meeting its burden of proving its case,
18 rather than requesting the Commission and ORS to accept its application without
19 change. What DSI's Application and presentation thus far has shown is the need
20 for DSI, BRUI, and Midlands to merge into one utility rather than try to be
21 operated as three separate utilities. Operations are not being conducted as three
22 separate utilities, and it appears that these utilities by maintaining separate entities
23 could potentially cause increased costs upon the customers. A merger of the three

1 companies into one company could have a cost savings benefit to DSI's
2 customers as DSI's customers would no longer bear the full burden of rate case
3 expenses.

4 **Q. ARE THERE ANY OTHER REASONS WHY DSI, BUSH RIVER**
5 **UTILITIES, INC., AND MIDLANDS UTILITY, INC. SHOULD MERGE**
6 **INTO ONE UTILITY?**

7 A. Yes, on page 9 of Mr. Parnell's Rebuttal Testimony, lines 15-16, he references the
8 "borrowing between companies" of certain equipment to attain full utilization of
9 that asset. DSI, BRUI, and Midlands Utility, Inc. share common ownership,
10 purpose, staffing, and inter-company utilization of assets, expenses, and
11 equipment. A merger of the three companies into one company could produce
12 cost savings and provide efficiencies of scale to benefit the customer.

13 **Q. IN REBUTTAL TESTIMONY, DSI'S WITNESS STATES THAT THE**
14 **PROPOSED INCREASE IN THE TAP FEE IS JUSTIFIED AND**
15 **CONSISTENT WITH THE REGULATIONS. ON WHAT BASIS DO YOU**
16 **ASSERT THAT DSI'S PROPOSED INCREASE IN THE TAP FEE IS NOT**
17 **IN COMPLIANCE WITH THE COMMISSION'S REGULATIONS?**

18 A. By its Application, DSI also requested to increase its customer tap fees by 300%.
19 DSI did not provide proper cost justification for the proposed increase in its
20 Application. Pursuant to 26 S.C. Code Regs 103-502.11, an exhibit setting forth
21 all cost criteria justifying the tap fee is required with the Application. Under the
22 Commission's regulations, proper cost justification shall include labor costs,
23 material costs and miscellaneous costs as required by 26 S.C. Code Regs. 103-

1 512.4.A.9 (Supp. 2003). This justification, or information, was not provided in
2 DSI's Application as required by the Commission's regulations.

3 However, in response to ORS's data requests, DSI provided some justification for
4 the \$1,116 multiplier in its Data Request response, and that justification indicates
5 the apparent function of the tap fee is to recapture plant investment based on the
6 proposed BRUI facility upgrade.

7 Other information supplied in DSI's data request responses references that the
8 main cost component of tap fees is officer salary but provides no detailed
9 explanation. Payment of officer salaries does not constitute proper cost
10 justification for tap fees.

11 The requested tap fee increase is unnecessary at this time for two reasons: 1) the
12 BRUI facility upgrade which produced the \$1,166.00 multiplier is not complete,
13 and final construction costs are not known and measurable; and 2) the cost
14 justification required by 26 S.C. Code Regs 103-502.11 and 103-512.4.A.9 was
15 not supplied by DSI .

16 **Q. DOES DSI CURRENTLY HAVE THE APPROPRIATE BOND TO**
17 **COMPLY WITH 26 S.C. CODE REGS 103-512.3.1?**

18 A, According to 26 S.C. Code Regs 103-512.3.1, the amount of DSI's bond should
19 be based on twelve months of Operating/Maintenance Expense,
20 General/Administrative Expense, Taxes and Other Income, Income Taxes and
21 Interest. The Commission's regulations and statutes also indicate that approved
22 bond amounts range from an amount not less than \$100,000 and not more than
23 \$350,000. An individual surety may stand the bond upon meeting the

1 requirements, which include the financial assurances that the individual's net
2 worth is twice the face amount of the bond.

3 DSI has a current performance bond in the form of an individual surety on file
4 and approved by PSC staff in the amount of \$10,000. Mr. Keith Parnell, in order
5 to act as surety on DSI's performance bond, filed a personal financial statement
6 dated 11/10/04 indicating assets and salary totaling of \$234,000. As part of the
7 assets on Mr. Parnell's financial statement, a house in the name of Mary Parnell
8 was listed, but there was no documentation indicating that Mary Parnell agreed
9 for this house to be listed as part of the bond. Mr. Parnell did not indicate any
10 liabilities or net worth on the filed financial statement.

11 These same assets and salary which are pledged on the bond for DSI are also
12 pledged on the bonds for Mr. Parnell's other companies, Bush River Utilities, Inc.
13 and Midlands Utility, Inc. Upon review and using the criteria set forth in 26 S.C.
14 Code Regs. 103-512.3.1, I determined that the face amount of DSI's bond based
15 on the expenses from the test year should be \$236,146.00. It is also my
16 determination that in order for Mr. Parnell to pledge the same assets and salaries
17 on three different bonds, the financial statement on file with the Commission must
18 document sufficient net worth of twice the aggregate amount of all three bonds.
19 In other words, Mr. Parnell would need to demonstrate a net worth on this
20 financial statement of \$1,671,500.00 which is twice the amount of the required
21 bond for DSI (\$236,146.00), Bush River Utilities, Inc. (\$249,604.00) and
22 Midlands Utility, Inc. (\$350,000.00). I have determined the required bond

1 amounts for Bush River Utilities, Inc. and Midlands Utility, Inc. using the
2 pending rate case applications for each of those utilities.

3 I have determined that the individual surety standing on the bond for DSI as filed
4 is insufficient to provide adequate financial assurance in compliance with the state
5 statutes and the Commission's regulations for the following reasons: (1) the
6 amount of the individual surety does not comply with the requirement of 26 S.C.
7 Code Regs. 103-512.3.1; (2) the individual surety does not accurately depict Mr.
8 Parnell's net worth as required by 26 S.C. Code Regs. 103-512.3.2 and 103-
9 512.3.3; (3) the real estate as indicated on Mr. Parnell's current financial
10 statement is in the name of Mary Parnell and there is no document in the bond file
11 indicating permission to pledge this asset as part of the surety; and (4) this real
12 estate owned by Mary Parnell is also included as an asset on the Bush River
13 Utilities, Inc. and Midlands Utility, Inc. surety, and there is no evidence of an
14 appraised value.

15 Additionally, it should be recognized that a merger of the three separate
16 companies into one company would reduce the bonding costs significantly as the
17 face amount of the bond for the one company would cap at \$350,000.00
18 according to the requirements of 26 S.C. Code Ann. Section 58-5-720.

19 **Q. DO YOU HAVE A RESPONSE TO MR. PARNELL'S REBUTTAL**
20 **TESTIMONY WHEREIN HE REQUESTS THE COMMISSION TO**
21 **CONSOLIDATE THE DSI AND BUSH RIVER UTILITIES, INC.**
22 **DOCKETS?**

1 A. I am not an attorney, but it is my understanding that if Mr. Parnell desired or
2 intended to have the DSI and Bush River Utilities, Inc. proceedings consolidated,
3 he could have filed a Motion to Consolidate with the Commission prior to the
4 hearing instead of asking the Commission for a consolidation in his rebuttal
5 testimony.

6 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

7 A. Yes it does.